

Exhibit 3
Affidavit of Ellen Lapson

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2017-305-E

IN RE:

Request of South Carolina Office of
 Regulatory Staff for Rate Relief to
 SCE&G Rates Pursuant to S.C. Code
 Ann. § 58-27-920

**AFFIDAVIT OF
 ELLEN LAPSON**

Personally appeared before me Ellen Lapson who, having first been duly sworn, deposes and states as follows:

1. My name is Ellen Lapson and I am over eighteen years of age. I am qualified and competent to make this affidavit.
2. I make this affidavit based upon my personal knowledge, except as to those matters stated upon information belief, and, as to those matters, I believe them to be true.
3. I am a Principal with Lapson Advisory. In this position, I provide financial consulting services to utilities and developers of infrastructure projects.
4. South Carolina Electric & Gas Company engaged me to assist in its evaluation of the request filed by the South Carolina Office of Regulatory Staff in the above-captioned matter.

5. In this regard, I have prepared Attachment A, my sworn statement, which I incorporate into this affidavit by this specific reference as if repeated verbatim herein.

6. For my sworn statement, I use the question and answer format that is customarily used in proceedings before the Public Service Commission of South Carolina.

7. The answers set forth in Attachment A are based upon my personal knowledge, except as to those matters stated upon information belief, and, as to those matters, I believe them to be true. Each opinion stated in Attachment A is accurate, true, and correct.

FURTHER AFFIANT SAYETH NOT.


Ellen Lapson

Sworn and subscribed to before me
this 7th day of December, 2017


Notary Public for New York

My commission expires: _____

MARK B. LINDE
Notary Public, State of New York
No. 01106121090
Qualified in Westchester County
Certificate filed in New York County
Commission Expires Jan. 10, 2021

ATTACHMENT A

to

Affidavit of Ellen Lapson

(which consists of the sworn statement of Ellen Lapson
consisting of 23 pages and Exhibit No. ____EL-1 through
Exhibit No. __EL-6)

SWORN STATEMENT OF
ELLEN LAPSON
ON BEHALF OF
SOUTH CAROLINA ELECTRIC & GAS COMPANY
DOCKET NO. 2017-305-E

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Ellen Lapson and my business address is 370 Riverside Drive, New
3 York, New York 10025.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the founder and Principal with Lapson Advisory.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
7 **QUALIFICATIONS.**

8 A. After graduating from Barnard College of Columbia University in 1969 with a
9 Bachelor of Arts degree in English, I earned a Masters degree in Business Administration
10 from New York University's Stern School of Business with a concentration in Accounting
11 and minor concentration in Finance. In 1978, I qualified as a Chartered Financial Analyst
12 ("CFA"), and I am a member of the CFA Institute.

13 I began my career in the financial markets as an equity analyst for five years at
14 Argus Research Corporation analyzing utility company equity securities. For the next 20
15 years, I held several posts at Chemical Bank and Chemical Securities (now J.P. Morgan)
16 as a corporate banker and an investment banker structuring and executing financial
17 transactions for utility and infrastructure companies. Thereafter, I spent 17 years first as a

1 senior director and then as a managing director at Fitch Ratings, a major credit rating
2 agency. At Fitch Ratings, I managed analysts who rated credits in the sectors of electricity
3 and natural gas and project finance, and I maintained liaison with bankers and investors in
4 utility securities. During my 37 years as a utility banker and at Fitch Ratings, I gained a
5 depth of experience in dealing with utilities in various degrees of financial distress and I
6 had to confront serious issues involving utilities' solvency, bankruptcy, and restructuring.

7 Six years ago, I left Fitch and founded Lapson Advisory where I provide services
8 on matters that involve utility finance including: credit rating advisory to utilities and
9 infrastructure projects; providing advanced training to mid-career professionals in utility
10 finance; and expert testimony.

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT WITNESS BEFORE A**
12 **REGULATORY COMMISSION?**

13 A. Yes. A list of the proceedings in which I have testified is included in Exhibit No.
14 ____ (EL-1), along with information about my professional credentials and experience in
15 the investment communities.

16 **Q. WHAT IS THE PURPOSE OF YOUR SWORN STATEMENT IN THIS**
17 **PROCEEDING?**

18 A. The purpose of my sworn statement is to provide expert opinions on the urgency of
19 safeguarding the financial strength of South Carolina Electric & Gas Company ("SCE&G"
20 or the "Company") at this time and on how the financial markets are likely to react if the
21 Request for Rate Relief to SCE&G's Rates Pursuant to S.C. Code Ann. § 58-27-920 (the
22 "Request") by the South Carolina Office of Regulatory Staff ("ORS") is granted.

23 **Q. PLEASE SUMMARIZE THE KEY POINTS OF YOUR SWORN STATEMENT.**

1 A. The Request, if granted, will undermine the financial stability and viability of
2 SCE&G. Before reaching a decision on the Request, it therefore is critical that the
3 Commission be fully aware of the potential consequences of its decisions in this matter.

4 The ORS Request seeks the immediate suspension of the collection of revised rates
5 amounting to \$445 million per annum¹ that SCE&G collects pursuant to the 2007 Base
6 Load Review Act ("BLRA"). Those revenues represent the financing cost relating to \$3.8
7 billion of investment by SCE&G in the new nuclear project and related transmission, or
8 \$3.4 billion excluding transmission investment. SCE&G has invested an additional \$1.3
9 billion in the project that has not yet been approved for revised rates, for a total asset
10 exposure of approximately \$4.8 billion, excluding transmission.

11 If the Commission grants ORS's Request, this action would most assuredly have
12 immediate and cascading effects on SCE&G's financial liquidity and viability. Among the
13 unfavorable consequences that can be expected are:

14 Cash flow effect: 1) Annual Funds from Operations for SCE&G will be reduced
15 by 35-40%; 2) Along with reduced operating cash flow, the Company will have
16 greater dependence on funds from external financial markets, and it is unlikely
17 these funds will be available on reasonable terms.

18 Balance sheet effects: 1) A determination that the full amount invested of at least
19 \$4.8 billion is not an earning asset and, thus, must be written off; 2) While the asset
20 will be written off, the amount of SCE&G's long-term debt will not be diminished;
21 therefore, the ratio of long-term debt to total capital as measured for regulatory
22 reporting would automatically increase from approximately 48% at September 30

¹ That number would be \$413 million per annum if the collection of a portion relating to the cost of new transmission assets continues. See Second Affidavit Jimmy E. Addison, October 31, 2017.

1 2017² to 61.6% of capital post-impairment net of the proceeds of the monetization
2 of the Toshiba Corporation payment to SCE&G (the “Toshiba Guarantee”). If the
3 Company also is required to segregate or rebate to customers the Toshiba Guarantee
4 proceeds, the ratio of debt to total capital would rise to 67.5%. However, debt
5 leverage will be even greater as calculated by credit analysts, bond investors, and
6 bankers in that they will include short-term debt and current maturities of long-term
7 debt in their calculation of total debt. Using the method commonly used in the
8 financial markets, the actual September 30, 2017 total debt ratio is 53.2% and the
9 pro forma debt ratio post-impairment with offset of the Toshiba Guarantee is
10 62.7%. If the Company also must segregate or refund to customers the Toshiba
11 Guarantee amount, total debt would be 72% of capital. (For the pro forma
12 adjustments, *see* Exhibit No. __ (EL-6).) Either scenario will be viewed negatively
13 by financial market participants, as signals of a company in dire financial stress
14 and, therefore, unlikely to repay investors for capital lent to the Company.

15 Credit Agreement impact: 1) The reduction in revenues indicated above and the
16 impairment of the asset and increase in debt leverage would undoubtedly be events
17 with “Material Adverse Effect” (a defined term in the bank credit agreements).
18 Thus the banks in the two revolving credit agreements that provide \$900 million of
19 credit to SCE&G would no longer be committed to lend; 2) SCE&G could no
20 longer draw under the agreements and could not issue short-term notes (commercial
21 paper) for short-term borrowings; 3) If the ratio of total debt to total capital as
22 defined in the two credit agreements exceeds 70%, as may occur under certain

² SCE&G’s Quarterly Report of Earnings to the Commission as of September 30, 2017. For pro forma adjustments, *see* Exhibit No. __ (EL-6).

1 scenarios, that would constitute an Event of Default, and any credit outstanding
2 under those agreements would become immediately due and payable and no further
3 credit would be available under the agreements.

4 Credit rating effect: Due to all the factors mentioned above, rating agencies would
5 further reduce the long-term credit ratings of SCE&G, and most likely all of the
6 three ratings will be below investment grade.

7 Common equity effect: New common equity, which would be needed to
8 recapitalize SCE&G and bring its ratio of debt to total capital back into line with
9 industry norms, would be more difficult to secure because the price of SCANA's
10 common shares would most likely fall further. With a diminished ability to issue
11 new common shares and rebalance its capital structure, SCANA's ability to issue
12 new bonds would be constrained and access to borrow under SCANA's revolving
13 credit agreement would be eliminated altogether.

14
15 Finally, the adverse financial consequences listed above would be materially
16 worsened if the Company is also required to rebate to customers over a short time frame
17 the approximately \$1.8 billion in revenues previously collected pursuant to the BLRA (or
18 to segregate or rebate to customers the Toshiba Guarantee). This cash flow stress,
19 combined with the maturing \$721 million of bonds in 2018 could well exceed the
20 Company's access to funding in 2018.

21 Such a cascade of financial problems would financially devastate the Company. It
22 should also be noted that this financial devastation would not just impact the Company and
23 its investors. These adverse financial consequences may also be detrimental for SCE&G's

1 electric customers, because the utility would not have the financial strength and resilience
2 that it needs to meet customers' demands for safe and reliable electric service. The
3 Company's ability to deal with the rapid restoration of service after events such as major
4 hurricanes, tornadoes, floods, or fires, or to maintain and upgrade its system also would be
5 compromised. While the Commission and government leaders may be motivated by strong
6 public sentiment to exact immediate retribution against SCE&G and its management, the
7 more radical and punitive those exactions are, the smaller will be the Company's capacity
8 to fund mandated reimbursements and maintain solvency. Furthermore, a financially
9 distressed SCE&G will be at a severe disadvantage when it comes to serving customers
10 with reliable and resilient service. In sum, the situation is severe, and efforts designed to
11 punish the Company that cripple it financially are likely to have an adverse impact on
12 service quality and reliability.

13 **Q. WHY SHOULD THE COMMISSION BE URGENTLY CONCERNED ABOUT**
14 **THE ONGOING FINANCIAL STRENGTH OF SCE&G AT THIS TIME?**

15 A. As I summarized above, the Request has the potential to undermine the financial
16 strength and viability of SCE&G. Financial strength is a critical resource that underlies
17 SCE&G's ability to fulfill its obligation to meet the needs of electricity consumers, and it
18 should always be a matter of utmost importance to the Commission. Sound financial
19 condition enables a company to cover its operating expenses, to deal with catastrophic
20 events that affect customer service, and to attract capital on favorable terms during all
21 phases of the capital market cycle, in good times and bad. If the ongoing financial strength
22 of SCE&G is compromised, the Company's ability to provide safe and reliable electric
23 service to its customers will be compromised.

1 **Q. ARE ELECTRIC UTILITIES CONFRONTED WITH SPECIFIC CONCERNS**
2 **THAT MAKE FINANCIAL STRENGTH ESPECIALLY IMPORTANT?**

3 A. Yes. The electricity delivery and transmission business is capital intensive. The
4 Company is obligated to invest continuously in long-lived fixed assets to serve growth in
5 connections, comply with changing governmental mandates and safety regulations, replace
6 infrastructure at the end of its useful life, and enhance the resilience and reliability of its
7 systems. Catastrophic events and emergencies such as floods, tornadoes, and hurricanes
8 can disrupt customer service and demand that the utility dedicate financial resources for
9 immediate disaster recovery. In addition, during normal times, the Company is investing
10 approximately \$500 million each year to upgrade, extend, and replace its facilities, all for
11 the purpose of providing safe and reliable electric service. In order to meet these ongoing
12 financial needs, SCE&G requires continuous access to bank credit facilities and the bond
13 market for funding at reasonable rates.

14 **Q. DOES SCE&G NEED TO MAINTAIN ACCESS TO CAPITAL MARKETS TO**
15 **CARRY OUT ITS OBLIGATION TO SERVE ITS CUSTOMERS?**

16 A. Yes. SCE&G depends upon short-term and long-term external debt issuance in the
17 capital market. Issuance of long-term debt from time to time enables the Company to
18 refund maturities of long-term debt and to pay down its short-term borrowings. The
19 Company relies on access to bank credit facilities in the form of multi-year revolving
20 credits either as a direct source of funding or as a back-up support for borrowing through
21 short-term notes (commercial paper). Like many utilities, the Company borrows using
22 commercial paper to fund seasonal working capital shortfalls and other funding needs on
23 an interim basis until the outstanding debt balance reaches a level that justifies the issuance

1 of a new long-term bond series. Access to short-term borrowing of this sort is a basic tool
2 of day-to-day working capital funding that reduces a utility's interest costs and revenue
3 requirements. The ability to issue long-term bonds, such as SCE&G's first mortgage
4 bonds, provides an efficient source of funding to support the long-term fixed assets of the
5 utility at relatively low costs to customers.

6 **Q. WHAT OBJECTIVE MEASURES OF CORPORATE FINANCIAL STRENGTH**
7 **ARE RECOGNIZED BY BANKERS, CREDIT COUNTERPARTIES, AND**
8 **INVESTORS?**

9 A. Long-term credit ratings by recognized credit rating agencies evaluate the business
10 and financial characteristics and risks of companies against transparent criteria, taking into
11 consideration key factors such as the adequacy and predictability of operating cash flow
12 relative to the amount of debt and other financial commitments. Long-term credit ratings
13 are a measure of the estimated risk of default on payments, and are widely accepted as
14 indicators of a company's financial soundness and liquidity.

15 **Q. WHAT ARE SCE&G'S LONG-TERM CREDIT RATINGS ACCORDING TO**
16 **STANDARD & POOR'S ("S&P"), MOODY'S, AND FITCH AND HOW HAS THE**
17 **FILING OF THE REQUEST BY ORS AFFECTED THOSE RATINGS?**

18 A. The current issuer credit ratings for the Company are listed in Table 1 below.
19 S&P's BBB and Moody's Baa2 rating are effectively the same rating, indicating the next
20 to lowest investment grade rating of those agencies. Fitch's rating of BBB- is one notch
21 lower than the ratings by S&P and Moody's and is the lowest rating within the investment
22 grade category. Exhibit No. ___ (EL-2) compares the long-term credit rating designations
23 of the three agencies and shows their equivalences. Both S&P and Fitch downgraded

SCE&G's long-term ratings on the dates indicated at the bottom of the table. Moody's maintained its rating of the Company's credit on the indicated date, but it changed its credit outlook status from a Negative Outlook to "On Review for Possible Downgrade" (the equivalent to Watch Negative).

Table 1

Long-Term Issuer Credit Ratings of SCE&G

	S&P	Moody's	Fitch
Long-term Issuer Credit Rating*	BBB	Baa2	BBB-,
Outlook or Watch	Watch Negative	On review for Downgrade	Watch Negative
Date of action	Sept. 29, 2017	Nov. 1, 2017	Sept. 27, 2017

In their published explanations of the rationale for their rating actions, included as Exhibit Nos. ____ (EL-3), ____ (EL-4), and ____ (EL-5), all three of the agencies cited the Request by ORS and commented that further downgrades are likely if major customer refunds are ordered by the Commission, if the BLRA is determined to be unconstitutional, or if revenues previously collected pursuant to the BLRA must be returned to customers over a short period of time.

Q. HOW DOES CREDIT QUALITY AFFECT INVESTORS' INVESTMENT DECISIONS?

A. Instruments with higher credit ratings can appeal to a broader market of investors, because they are eligible investments under the regulations or the internal investment policies and guidelines of the greatest number of institutional investors. When bonds carry low credit ratings, some investment accounts are forbidden to hold them, and many other

1 accounts have internal investment guidelines that restrict the percentage of the portfolio
2 that may be comprised of investments of lower credit ratings. Even when investment
3 managers are not constrained by law or policy to investments of specific credit ratings, they
4 use ratings from credit rating agencies and their own evaluations of credit quality to shape
5 their investment decisions. In particular, when credit ratings are below investment grade or
6 at the borderline between investment grade and sub-investment grade ratings, the access to
7 short-term credit and to issuing long-term bonds becomes more difficult and more costly.

8 **Q. WHAT IS THE BOUNDARY BETWEEN INVESTMENT GRADE AND SUB-**
9 **INVESTMENT GRADE RATINGS?**

10 A. As shown in Exhibit No. ____ (EL-2), for S&P and Fitch, BBB- is the lowest rating
11 within the investment grade, and BB+ is the upper boundary of the sub-investment grade
12 category (also called “speculative grade”). In the case of Moody’s, Baa3 is the lowest
13 investment grade rating and Ba1 is the upper boundary of the speculative category. Risk
14 of default is relatively low within the mid- and high-investment grade categories, but
15 default risk widens out materially at the boundary of investment grade and at successively
16 lower ratings.

17 **Q. WHAT IS THE RELATIONSHIP BETWEEN CREDIT RATINGS AND THE**
18 **COST OF DEBT FINANCING?**

19 A. In general, investors expect to be paid more to hold investments of lower credit
20 quality. During periods of uncertainty or financial market distress, the pricing disparity
21 between credit rating categories widens materially relative to more normal periods. But it
22 is not just a matter of the cost; lower credit ratings also reduce *access* to funding. At sub-
23 investment grade ratings, companies are no longer eligible for funding in the commercial

1 paper market, so they lose access to a low-cost source of funding. Also, sub-investment
2 grade credits may not be able to issue any material amount of fixed rate debt for periods
3 longer than five to ten years at the longest—quite a difference from the access that
4 investment grade companies have to longer term bond issuance out to maturities of 50
5 years.

6 **Q. WHEN CONSIDERING WHETHER A COMPANY IS OF INVESTMENT GRADE**
7 **OR SUB-INVESTMENT GRADE STATUS, WHICH RATINGS ARE RELEVANT?**

8 A. The long-term unsecured issuer credit rating or the unsecured debt rating is the
9 relevant rating for that purpose.

10 **Q. ARE SCE&G'S UNSECURED LONG-TERM CREDIT RATINGS IN THE**
11 **INVESTMENT GRADE CATEGORY?**

12 A. Currently, yes. However, as I have already mentioned, all three of the credit rating
13 agencies that rate the Company have indicated that their ratings are on a Watch status for
14 a possible downgrade. Fitch's rating of BBB- is already at the very bottom rung of the
15 investment grade category, and any downgrade would place the rating in the BB category,
16 which is below investment grade. S&P has already indicated that its next possible near-
17 term downgrade may be a two-notch downgrade (that is, to BB+). Moody's has not given
18 any indication of the potential magnitude of a downgrade, but, if the company loses access
19 to its revolving credit facilities, Moody's criteria would require lowering the rating into the
20 sub-investment grade category, probably to no higher than Ba2, a three-notch downgrade.
21 Investors assume that any punitive legislative or regulatory outcome would bring all three
22 rating agencies' ratings into the sub-investment grade realm.

1 **Q. DOES SCE&G CURRENTLY HAVE ADEQUATE ACCESS TO THE LONG-**
 2 **TERM AND SHORT-TERM CREDIT MARKETS?**

3 A. Yes. However, the Company's current issuer credit ratings are at or near the bottom
 4 of the investment grade category. In addition, they are among the lowest 10% of ratings
 5 in the universe of regulated U.S. utility operating companies. As such, the ratings currently
 6 are minimally adequate to give the Company access to long-term and short-term credit and
 7 trade credit from its counterparties.

8 **Q. WOULD GRANTING THE RELIEF REQUESTED BY ORS RESULT IN**
 9 **FURTHER CREDIT DOWNGRADES FROM THE CURRENT LEVELS AT THE**
 10 **THREE AGENCIES?**

11 A. Yes. This outcome is clearly indicated in the explanations given by the three
 12 agencies at the time of their most recent rating actions. For example, Moody's stated on
 13 November 1, 2017 when it placed SCE&G's Baa2 rating on review for downgrade:

14 Specifically, if the ORS recommendations were to be adopted, there would be a
 15 significant reduction in cash flow and a meaningful impact on credit metrics. For
 16 example, we estimate the companies' ratios of cash flow from operations excluding
 17 changes in working capital (CFO pre-WC) to debt, which are currently in the
 18 high-teens to twenty percent range, could move to the mid-to-low teens range. In
 19 addition, implementation of the ORS recommendation could lead to a substantial
 20 asset impairment, which in some downside scenarios, could result in a covenant
 21 violation under the companies' credit facilities, restricting their access to liquidity.
 22 In light of the increased regulatory and political uncertainty, the resulting metrics
 23 would likely no longer be appropriate for the companies' current ratings.³

24 The reduction in operating cash flow operations to debt that Moody's cites would indicate
 25 a potential rating for SCE&G either one notch lower at Baa3—the lowest investment grade
 26 rating—or two notches lower at Ba1—a speculative rating. Importantly, however, the debt

³ Moody's Investors Service, "Rating Action: Moody's Places SCANA and SCE&G on Review for Downgrade", November 1, 2017 (Exhibit No. ____ (EL-3) at 1).

1 to capital ratio resulting from the related asset impairment would rise to 62.7% if SCE&G
 2 retains the offset of the Toshiba Guarantee, or to 72% if there is no offset from the Toshiba
 3 Guarantee. These capital ratios are indicative of a Moody's rating in the Ba or low Ba
 4 category. Assuming that at the same time SCE&G lost access to borrowing under its
 5 revolving credit agreement, the resultant loss of liquidity would predict a change in
 6 Moody's rating to Ba2 or lower—a three-notch downgrade.⁴

7 S&P's most recent commentary on its September 29, 2017 rating action (which
 8 lowered SCE&G's rating and placed the rating on a Negative Watch) stated:

9 We could lower the ratings on SCANA and its subsidiaries if Summer-
 10 related rates are rescinded. We could further lower ratings if legal
 11 challenges to a rate decrease are unsuccessful, if the SCPSC orders cash
 12 refunds or rate credits for Summer-related costs, if the BLRA is repealed or
 13 changed by the legislature, or if the BLRA is deemed unconstitutional.⁵

14
 15 In short, SCE&G's issuer credit rating will be downgraded by at least one notch or more,
 16 and below investment grade, if the \$445 million of revenue collection is interrupted.
 17 Ratings would be further downgraded if the Commission also orders rate credits or rate
 18 refunds for prior revenue collections.

19 When Fitch lowered the rating of SCE&G and placed the new rating on Watch
 20 Negative on September 27, 2017, Fitch provided an explanation of what circumstances
 21 would lead to a further reduction of the rating to below investment grade:

22 Negative Rating Action: Future developments that may, individually or
 23 collectively, lead to a negative rating action include:
 24 --Availability under committed liquidity facilities and anticipated internally
 25 generated cash flows falling short of expected obligations due in the next 12-18
 26 months.

⁴ The outcome would be at least a three-notch downgrade if Moody's rating committee decides at its review of the Company to assess SCE&G's financial metrics based on its table of Standard Volatility credit benchmarks, rather than the Low Volatility benchmarks used for most rate-regulated utilities in supportive regulatory environments.

⁵ Standard & Poor's, "Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB' On Adverse Regulatory Developments And Placed On Watch Negative," September 29, 2017 (Exhibit No. ____ (EL-4) at 4).

1 --Unfavorable terms for the recovery of stranded costs, and/or material
 2 unrecoverable costs;
 3 --Continued deterioration in the regulatory and legislative environment in South
 4 Carolina;
 5 --Adjusted debt/EBITDAR consistently and materially exceeding 5.0x.⁶

6 The reduction in operating cash flow resulting from the removal of revenues as sought in
 7 the Request would cause the ratio of Debt to Earnings before Interest, Taxes, Depreciation,
 8 Amortization, and Restructuring (“EBITDAR”) to rise to 6 times or greater, fulfilling one
 9 of Fitch’s conditions for downgrade. A second condition for downgrade would be triggered
 10 if SCE&G lost access to drawings under the revolving credit agreements.

11 In summary, it is my opinion that granting ORS’s initial Request to suspend all
 12 revised rates collection from customers, even without refunds, would trigger downgrades
 13 by all three rating agencies in the magnitude of one or more notches. This would result in
 14 a downgrade to sub-investment grade by one or more agencies.

15 **Q. WHAT IMPACT WOULD DOWNGRADING SCE&G’S UNSECURED LONG-**
 16 **TERM AND SHORT-TERM CREDIT RATINGS HAVE ON THE COMPANY?**

17 A. Having investment grade ratings in the BBB range (S&P and Fitch) or Baa range
 18 (Moody’s) is a minimum requirement for sustainable management of a public utility. If
 19 SCE&G’s credit ratings are downgraded further, the Company would face higher costs of
 20 long-term debt, and funding or refunding large amounts of long-term debt would become
 21 difficult. It would no longer be advantageous for SCE&G to sell long-term bonds, and the
 22 Company probably could issue only intermediate term bonds (such as three to seven years),
 23 setting up a greater dependence on external debt issuance in the succeeding years. With

⁶ Fitch Ratings, “Press Release: Fitch Downgrades SCANA to ‘BB+’ / SCE&G to ‘BBB-’; Negative Watch Maintained,” September 27, 2017 (Exhibit No. ____ (EL-5) at 2-3).

1 sub-investment grade long-term credit ratings, SCE&G's short-term ratings would also be
2 in the sub-investment grade category, and that would eliminate the possibility of accessing
3 the commercial paper market. Access to the commercial paper market is also dependent on
4 having access to full back-up for the commercial paper issued in the form of an undrawn
5 committed credit facility, and that condition would no longer be present if ORS's Request
6 is granted.

7 **Q. IN ADDITION TO ITS CREDIT RATINGS, WHAT ELSE IS NECESSARY FOR**
8 **THE COMPANY'S CONTINUING LIQUIDITY AND FINANCIAL STABILITY?**

9 A. A vital factor affecting SCE&G's liquidity and access to short-term capital is the
10 ability to draw under its Revolving Credit Facilities. Currently, SCE&G has access to two
11 revolving credit agreements, a \$200 million facility that extends until December 2018 and
12 another \$700 million facility that extends until December 2020. These two facilities
13 totaling \$900 million provide the Company with the essential liquidity and flexibility to
14 operate and carry out its business. However, continued access to bank credit and short-
15 term funding is significantly threatened by ORS's Request and by various punitive
16 measures under discussion in the Legislature.

17 **Q. WHAT IMPACTS WOULD THE RELIEF SOUGHT BY ORS HAVE UPON THE**
18 **COMPANY'S ACCESS TO ITS BANK CREDIT AGREEMENTS?**

19 A. The two credit agreements share similar conditions to borrowing, covenants, and
20 events of default. The agreements both require SCE&G as borrower to disclose to the
21 lenders any occurrences having Material Adverse Effect ("MAE") relative to the base
22 conditions that prevailed at the initiation of the credit agreement. For example, whenever
23 a loan is drawn under the facility, an officer of the borrower must warrant that there has

1 been no event having MAE, or disclose such MAE to the lenders.⁷ An occurrence having
 2 MAE would eliminate the lenders' commitments to fund drawings under the agreement.
 3 If SCE&G had outstanding commercial paper at the time of an occurrence having MAE,
 4 the Company would not be able to issue new commercial paper at the maturity of the
 5 outstanding notes, and would not be able to draw any loans under the revolving credit.

6 Furthermore, if the full amount of the nuclear project asset is impaired and must be
 7 written off and the Company is not able to retain the offset of the Toshiba Guarantee as a
 8 reduction in debt, SCE&G would likely violate one of the financial covenants of the two
 9 revolving credit agreements because the amount of the Company's debt as defined would
 10 likely exceed 70% of total capital as defined. When this covenant is breached, no further
 11 drawing would be permitted under the revolving credit agreements and any amounts due
 12 under the revolving credit would become immediately due and payable. Consequently,
 13 other agreements and credit arrangements with vendors may also experience defaults and
 14 require immediate repayment as a result of an Event of Default under the bank credit
 15 agreements.

16 **Q. IS A COMPANY'S CAPITAL STRUCTURE A MAJOR DETERMINANT OF THE**
 17 **COMPANY'S FINANCIAL RISK AND ITS FINANCIAL STRENGTH?**

⁷ "Material Adverse Effect" is defined in the \$200,000,000 Amended and Restated Three-Year Credit Agreement dated as of December 17, 2015 and in the \$700,000,000 Second Amended and Restated Five-Year Credit Agreement dated as of December 17, 2015 to mean "a material adverse effect on (a) the properties, business, assets, liabilities (actual or contingent), operations, condition (financial or otherwise) of the Borrower on a consolidated basis and its Subsidiaries, taken as a whole, (b) the ability of the Borrower to perform its obligations under this Agreement or any of the other Loan Documents to which the Borrower is a party or (c) the validity or enforceability against the Borrower of this Agreement, any of the other Loan Documents to which the Borrower is a party, or the rights and remedies of the Agent, the Issuing Banks and the Lenders hereunder or thereunder." (Emphasis added.) A regulatory order removing revenues that previously made up more than a third of the Company's Funds from Operations, or the invalidation of the BLRA, or the write-off of several billions of dollars of assets, or the resulting change in the balance of debt and equity on the balance sheet would each individually or all taken together match the conditions described in part (a) of the definition.

1 A. It most certainly is. Regarding the concept of financial risk, Roger Morin explains:

2 Financial risk stems from the method used by the company to finance its
3 investments and is reflected in its capital structure. It refers to the additional
4 volatility imparted to income available to common shareholders by the
5 employment of fixed cost financing, that is, debt and preferred cost capital.
6 Although the use of fixed-cost capital can offer financial advantages
7 through the possibility of leverage of earnings (financial leverage), it creates
8 additional risk due to the fixed contractual obligations associated with such
9 capital. Debt and preferred stock carry fixed charge burdens that must be
10 supported by the company's earnings before any return can be made
11 available to the common shareholder. The greater the proportion of fixed
12 charges to the total income of the company, the greater the financial risk.⁸

13
14 To state this in another way, the greater the proportion of equity capital in the capital
15 structure, the greater the company's financial strength.

16 **Q. DOES THE FINANCIAL RISK STEMMING FROM A GREATER PROPORTION**
17 **OF DEBT FINANCING IN THE CAPITAL STRUCTURE AFFECT ONLY THE**
18 **RISKS BORNE BY SHAREHOLDERS?**

19 A. No. A greater proportion of debt (and correspondingly lower proportion of equity)
20 in the capital structure increases not only shareholders' financial risk due to the increased
21 volatility of earnings, but it also raises the financial risk of all debt holders and trade
22 creditors through the increased risk of default. Morin expresses the situation as follows:
23 "More generally, a financial risk premium is required by both bondholders and common
24 shareholders."⁹ Moreover, in the case of a public utility, increased financial leverage and
25 rising default risk typically weaken the utility's ability to fund investments in its network
26 and lead to lower levels of reliability and customer service. In summary, funding the utility
27 with a greater proportion of debt capital and a lower proportion of equity capital increases
28 financial risk for shareholders, bondholders, lenders, trade creditors, and utility consumers.

⁸ Morin, Roger A., Ph. D., New Regulatory Finance, Public Utility Reports, Inc., 2006, 45-46.

⁹ *Id.*

1 **Q. WHAT EFFECT WILL THE REQUEST HAVE ON THE CAPITAL STRUCTURE**
2 **OF SCE&G?**

3 A. Eliminating the collection from customers of the debt and equity carrying costs of
4 the assets SCE&G invested in the new nuclear project likely will result in the impairment
5 of the associated assets and their removal from the balance sheet. The likely effect of this
6 impairment on the capital structure is shown by means of pro forma adjustments to the
7 Company's September 30, 2017 capital in Exhibit No. ____ (EL-6). The impairment would
8 increase SCE&G's ratio of debt to total capitalization as measured by bond analysts and
9 credit rating agencies from approximately 53% at September 30, 2017 to 62.7% post-
10 impairment assuming that the proceeds of the Toshiba Guarantee are an offset. This debt
11 leverage ratio would further rise to around 72% post-impairment if the Commission orders
12 the Company to turn over the proceeds of the Toshiba Guarantee, either for customer bill
13 credits or into some form of segregated or escrow account.

14 **Q. IS THE DEGREE OF DEBT LEVERAGE UNDER THE RESULTING POST-**
15 **IMPAIRMENT CAPITAL STRUCTURE NORMAL OR DESIRABLE FOR AN**
16 **ELECTRIC UTILITY?**

17 A. No. In my professional experience over the past several decades, regulatory capital
18 structures for U.S. investor-owned utilities are typically closer to 50% equity and 50% debt.
19 In fact, in regulatory decisions for investor-owned electric utilities over the past two to
20 three years, a debt component in excess of 60% of total capital is an outlier, and I am not
21 aware of cases in which a 70% ratio was authorized.

22 **Q. HOW OR WHEN DO UTILITIES AND CONSUMERS BENEFIT FROM THE**
23 **UTILITY'S STRONGER FINANCIAL CAPABILITY?**

1 A. Financial strength, access to liquidity, and investment grade ratings are essential
2 for a utility to have the financial flexibility to respond to emergencies and extreme events
3 such as hurricanes, tornadoes, and floods. During those types of events, SCE&G needs
4 strong access to the commercial paper and capital markets and the confidence of the
5 investment community in order to fund its recovery efforts immediately. If the Company
6 is of sub-investment grade or lacks access to bank credit and short-term borrowings, this
7 purpose is frustrated. When I think of past climate events that have affected South
8 Carolina, it should be quite obvious that a utility cannot mount a rapid and effective storm
9 restoration plan without the confidence of its counterparties, suppliers, vendors, and the
10 ability to immediately borrow the funds needed to mobilize work crews, order new
11 equipment, and pay for other restoration costs prior to rate recovery of those cash outflows.
12 Recent problems at the financially distressed Puerto Rican Electric Power Authority
13 ("PREPA") in restoring power to its customers in the wake of hurricanes Irma and Maria
14 illustrate this point.

15 **Q. ARE THERE OTHER BENEFITS OF SOUND CREDIT QUALITY TO SCE&G**
16 **AND ITS CUSTOMERS?**

17 A. Yes. Trade creditors and energy market counterparties impose limits on the amount
18 of unsecured credit they will provide based on the credit quality of their counterparty. By
19 maintaining sound credit ratings, SCE&G is able to maximize the amount of unsecured
20 credit available from vendors and energy providers and pass the resulting cost benefits on
21 to its customers. Credit ratings also affect the cost and availability of bank credit facilities.
22 Banks are required by their regulators to maintain capital against their loan assets and
23 undrawn commitments based on the riskiness of the borrower. Consequently, banks

1 provide larger amounts of credit more readily and on more favorable terms to borrowers of
2 stronger credit quality. Banks charge progressively higher fees on undrawn credit and
3 higher interest spreads on notes or letters of credit outstanding for progressively lower rated
4 borrowers.

5 **Q. CAN YOU PROVIDE ANY OTHER EXAMPLES OF BENEFITS TO SCE&G'S**
6 **CUSTOMERS FROM STRONG CREDIT QUALITY AND MARKET ACCESS?**

7 A. Utilities' access to long-term and short-term debt funding varies depending upon
8 capital market cycles. During normal or robust periods in the financial markets, such as is
9 currently the case, rate-regulated utilities with investment grade credit ratings typically are
10 able to issue new debt instruments in large amounts at any level of ratings, while sub-
11 investment grade credits have less assured access to new funding. But times are not always
12 as favorable in the capital market as the present market phase. During periods of financial
13 market distress, access to the long-term and short-term debt markets becomes constrained
14 not only for sub-investment grade credits but also for those in the lower tier of the
15 investment grade category, i.e., those with ratings of BBB (from S&P or Fitch, or the
16 equivalent Moody's rating of Baa) and BBB- (or Baa3).

17 At past times of market transition or distress, issuers with unsecured credit ratings
18 in the range of low A (A- or A3) to high A (A+ or A1) were able to sell bonds in the long-
19 term market when companies with lesser credit ratings were not able to fund in the quantity
20 needed to refund maturing debt or carry out their capital expenditures as planned. Those
21 companies that are forced to draw heavily on bank lines during the period of market stress
22 are exposed to higher costs of funding and the scarcity of new bank credit commitments
23 and face a greater risk of illiquidity. Typically, bank capital is constrained at the very time

1 of financial market stress. If SCE&G has no access to its revolving credit facilities, it would
2 be solely dependent on long-term bond issuance for needed operational funding. Capital
3 markets may be constrained for sub-investment grade or BBB- and Baa3 credits at the very
4 time when SCE&G faces a large financing need. At such times, having a more sound equity
5 position and lower financial leverage becomes particularly important. In summary, sound
6 financial condition and access to credit lines provides greater financial flexibility and
7 access to funds at all times in the market cycle, even in distressed markets.

8 **Q. ARE YOU FAMILIAR WITH BANKRUPTCIES AND RESTRUCTURINGS OF**
9 **REGULATED U.S. UTILITIES?**

10 A. Yes. My financial career specializing in the utility sector as a banker and then as a
11 credit analyst and leader in rating utility credits has exposed me to a depth of practical
12 experience of utility bankruptcies.

13 **Q. IF ORS'S REQUEST IS GRANTED, COULD SCE&G BE PUT AT RISK OF**
14 **HAVING TO FILE FOR BANKRUPTCY PROTECTION?**

15 A. Yes. Granting ORS's Request could be the first step in a quick cascade that would
16 result in SCE&G's illiquidity and financial distress and could lead to a bankruptcy petition.
17 While a petition for bankruptcy protection is a possible outcome, it is not an inevitable
18 outcome at this point. Paths are available for resolution that would spare the extreme waste
19 and burden of a bankruptcy proceeding, and they are largely in the hands of this
20 Commission and other public officials and legislators. By granting the ORS Request, the
21 Commission would take a first step in hastening that cascade of financial calamity. In
22 summary, granting the relief requested by the ORS could set off forces that would sweep

1 the situation beyond the Commission's control and into the jurisdiction of the federal
2 bankruptcy court.

3 **Q. WHAT IMPACT WOULD A BANKRUPTCY PROCEEDING HAVE ON**
4 **SCE&G'S CUSTOMERS AND ON THE COMMISSION?**

5 A. In my experience, a utility bankruptcy proceeding is a time-consuming and wasteful
6 process. Thousands of hours of the utility's management and of the time of the
7 Commissioners and ORS would be consumed, and this is a distraction from the necessary
8 work of normal operations, planning, and oversight. The median length of a utility
9 bankruptcy proceeding in the modern era is approximately three years, and some cases
10 have gone on for more than four years.¹⁰ During such proceedings, hundreds of millions
11 of dollars are spent on bankruptcy counsel, specialized accounting services, and other
12 bankruptcy professionals, and these are dollars that would otherwise be available to satisfy
13 the utility's customers, but instead are consumed in a process that is outside of the control
14 of the Commission. The best interest of customers would be served by a resolution that
15 keeps SCE&G personnel, ORS, and the Commission focused on SCE&G continuing to
16 deliver safe and reliable electric service, and not on serving the bankruptcy court process.

17 Customers have a pressing need to have a reliable and financially sound utility, and
18 the bankruptcy procedure can delay reaching that objective and drain resources from
19 SCE&G that could otherwise be used to reduce customer rates or provide other types of
20 restoration.

21 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

¹⁰ This is longer than the median duration of corporate bankruptcies outside the utility sector, often because of the complicated interplay between the federal bankruptcy court and state regulatory procedures to reach necessary utility regulatory settlement or tariff provisions.

1 A. Granting ORS's Request could place SCE&G on a path to extreme financial
2 distress, due to a cascade of factors. As I have already explained, these may result in taking
3 a substantial impairment of the assets on SCE&G's balance sheet, substantially higher
4 financial debt leverage, downgrades of SCE&G's credit ratings below investment grade,
5 and the loss of access to borrowing under committed revolving credits. Even more severe
6 liquidity stress would result if SCE&G is also ordered to refund to customers or segregate
7 the proceeds of the Toshiba Guarantee or the approximately \$1.8 billion in revenues
8 previously collected pursuant to the BLRA. If the combined financial stress of these events
9 along with the impending maturities of long-term debt in 2018 exceed SCE&G's ability to
10 meet all pending claims, that chain of events would likely be the trigger for default or
11 bankruptcy actions.

12 It is of vital interest to utility customers and to the Commission to assure that the
13 utility that provides electric service to consumers is financially sound and stable. The
14 Commission can and should avoid setting off a cascade of financial crisis by rejecting the
15 relief sought by the ORS and issuing a decision that adheres to the legal principles that the
16 Commission, ORS, other parties, and most assuredly investors relied upon when investing
17 millions of dollars into the V.C. Summer project. While certainly the abandonment of the
18 project is disappointing and frustrating to all involved, disappointment and frustration
19 should not be used as a reason to now jeopardize the financial integrity of the Company
20 and force its bankruptcy, resulting in great harm to everyone, including customers, and the
21 state of South Carolina.

22 **Q. DOES THIS CONCLUDE YOUR SWORN STATEMENT?**

23 A. Yes, it does.

EXPERIENCE AND QUALIFICATIONS
ELLEN LAPSON, CFA**LAPSON ADVISORY**
Financial Consulting
Expert Testimony
Financial Training370 Riverside Dr., 9D
New York, NY 10025
+1-212-866-1040
www.lapsonadvisory.com**SUMMARY OF QUALIFICATIONS**

Industry expert on financing utilities and similar types of infrastructure. Over 40 years of professional experience in commercial and investment banking, securities analysis, and credit ratings. Focus on utilities, power generation and alternative energy sources, natural gas and fuels, corporate and project finance.

Provide executive training in utility financial analysis and credit analysis.

Consult and provide expert witness testimony in matters involving capital access for infrastructure, energy and utilities. (See pages 3-5.)

MBA in accounting and finance; Chartered Financial Analyst (CFA).

EMPLOYMENT**Lapson Advisory**
Principal
Dec. 2011 - present

Financial consulting services to utilities and developers of infrastructure projects. Financial strategy and credit advisory for power, energy, infrastructure companies, and utilities. Expert witness testimony on financial and regulatory topics relating to utilities and infrastructure finance. Design and conduct financial and credit training.

Fitch Ratings
Utilities, Power & Gas
Managing Director
1999-2011
Senior Director
1994-1999

Chair of Fitch's global Corporate Finance Criteria Committee overseeing criteria for rating corporations, financial institutions, insurers, REITs, and project finance transactions (2010-2011).

Manager or primary analyst on credit ratings of over 200 utility, pipeline, power generation companies. Utility tariff monetization. Senior member of rating committees for utilities and energy and power-related projects.

Liaison with utility sector fixed income investors, focusing on 50 largest institutional investors holding utility and power bonds, buy-side and sell-side analysts, and utility bankers.

JP Morgan Chase
(formerly Chemical NY
Corp.)
Vice President
1975-94
Asst. Vice President
1974-1975

Managed financial advisory transactions, structured debt private placements, syndicated credit facilities for utilities, mining and metals, project finance. Structured financing for utility regulatory assets (first of its kind “stranded cost” securitization transaction) for Puget Energy, 1992-94.

Led financing for bankrupt utility as debtor-in-possession; prepared financing plans for distressed utilities; structured exit financing for reorganization of two utilities emerging from Chapter 11.

Divisional Controller - 1981-1986

Argus Research Corp.
Equity Security Analyst –
Utilities
1969-1974

Equity analysis of U.S. electric and gas utilities, natural gas pipelines, and telecommunications companies. Modeling and projecting corporate financial statements. Research coverage and reports.

EDUCATION & CHARTER

Stern School of Business, New York University, MBA, 1975

Major concentration: Accounting

Master’s Thesis: Cash Flow vs. Accrual Accounting Data in Utility Equity Valuation

Chartered Financial Analyst (CFA) since 1978

Barnard College, Columbia University, BA, 1969

PROFESSIONAL ASSOCIATIONS

Institute of Chartered Financial Analysts, 1978 - present

Wall Street Utility Group, 1996 - present

ADVISORY COUNCILS AND BOARD SERVICE

Rocky Mountain Institute Sustainable Finance Advisory Board member. 2016 to present.

Represented U.S. investment community in advisory panel on International Accounting Standard Board proposals for financial reporting for rate-regulated activities, sponsored by Edison Electric Institute and American Gas Association, Dec. 2014

National Academy of Sciences/ National Research Council, Resilient America Forum, July 2014.

MIT Energy Institute, External Advisory Council, The Future of Solar Energy, 2012-2014.

Electric Power Research Institute, Advisory Council, 2004-2011; Chair, 2009 and 2010.

EXPERT WITNESS TESTIMONY

Jurisdiction	Proceeding	Topic
DC Public Service Commission	Formal Case No. 1142, Merger Application of AltaGas Ltd. and Washington Gas Light, Inc. (2017)	Ring-fencing for utility merger; financial strength
Public Service Commission of Maryland	Docket No. 9449, In the Matter of the Merger of AltaGas Ltd. and Washington Gas Light, Inc. (2017)	Ring-fencing for utility merger; financial strength
Public Utilities Commission Texas	Docket No. 46957, Application of Oncor Electric Delivery LLC to Change Rates, on behalf of Oncor. (2017)	Appropriate capital structure.
Public Utilities Commission Texas	Docket No. 46416, Application of Entergy Texas, Inc. for a Certificate of Convenience and Necessity, Montgomery County, on behalf of Entergy Texas (2016-2017)	Debt equivalence and capital cost associated with capacity purchase obligations (PPA)
U.S. Federal Energy Regulatory Commission	Dockets No. EL16-29 and EL16-30, NCEMC, et al. vs Duke Energy Carolinas and Duke Energy Progress, on behalf of the Respondents (2016)	Capital market environment affecting the determination of the cost of equity capital
Hawaii Public Utilities Commission	Docket No. 2015-0022, Merger Application on behalf of NextEra Energy and Hawaiian Electric Inc. (2015)	Ring-fencing and financial strength
U.S. Federal Energy Regulatory Commission	Dockets EL13-48 and EL15-27, Delaware Div. of the Public Advocate vs. Baltimore Gas and Electric Company and PEPCO Holdings et al., for Respondents (2015)	Capital market environment affecting the determination of the cost of equity capital
Arkansas Public Service Commission	Docket No. 15-015-U, Entergy Arkansas, Inc. Application for Change of Rates, on behalf of Entergy Arkansas, Inc. (2015)	Effect of ROE and other rate matters on cash flow and credit ratings.
U.S. Federal Energy Regulatory Commission	Dockets No. EL14-12 and EL15-45, ABATE, et al. vs MISO, Inc. et al., on behalf of the MISO Transmission Owners (2015)	Capital market environment; capital spending and risk
U.S. Federal Energy Regulatory Commission	Dockets No. EL12-59 and 13-78, Golden Spread Electric Coop., on behalf of Southwestern Public Service Co. (2015)	Capital market environment; capital spending and risk
U.S. Federal Energy Regulatory Commission	Dockets No. EL13-33 and EL14-86, ENE et al. vs. Bangor Hydro-Electric Co. et al., on behalf of New England Transmission Owners. (2015)	Capital market environment affecting the measurement of the cost of equity capital
U.S. Federal Energy Regulatory Commission	Dockets No. ER13-1508 et alia, Entergy Arkansas, Inc. and other Entergy utility subsidiaries, on behalf of Entergy Services Inc. (2014)	Capital market environment affecting the measurement of the cost of equity capital

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Jurisdiction	Proceeding	Topic
Delaware Public Service Commission	DE Case 14-193, Merger of Exelon Corp. and Pepco Holdings, Inc. on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
Maryland Public Service Commission	Case No. 9361, Merger of Exelon Corp. and Pepco Holdings, Inc. on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
New Jersey Board of Public Utilities	BPU Docket No. EM 14060581, Merger of Exelon Corp. and Pepco Holdings, Inc., on behalf of the Joint Applicants (2015)	Ring-fencing for utility merger; avoidance of financial harm
U.S. Federal Energy Regulatory Commission	Docket ER15-572 Application of New York Transco, LLC, on behalf of NY Transco, LLC. (2015)	Incentive compensation for electric transmission; capital market and financial strength
U.S. Federal Energy Regulatory Commission	Docket EL 14-90-000 Seminole Electric Cooperative, Inc. and Florida Municipal Power Agency vs. Duke Energy FL on behalf of Duke Energy (2014)	Capital market environment affecting the determination of the cost of equity capital
DC Public Service Commission	Formal Case No. 1119 Merger of Exelon Corp. and Pepco Holdings Inc., on behalf of the Joint Applicants (2014-2015)	Ring-fencing for utility merger; avoidance of financial harm
U.S. Federal Energy Regulatory Commission	Docket EL14-86-000 Attorney General of Massachusetts et. al. vs. Bangor Hydro-Electric Company, et. al on behalf of New England Transmission Owners (2014)	Return on Equity; capital market environment
Arkansas Public Service Commission	Docket No. 13-028-U. Rehearing direct testimony on behalf of Entergy Arkansas. (2014)	Investor and rating agency reactions to ROE set by Order.
Illinois Commerce Commission	Docket No. 12-0560 Rock Island Clean Line LLC, on behalf of Commonwealth Edison Company, an intervenor (2013)	Access to capital for a merchant electric transmission line; financial capability
U.S. Federal Energy Regulatory Commission	Docket EL13-48-000 Delaware Division of the Public Advocate, et. al. vs. Baltimore Gas and Electric Company and PEPCO Holdings et al., on behalf of (i)Baltimore Gas and Electric and (ii) PEPCO and subsidiaries (2013)	Return on Equity; capital market view of transmission investment
U.S. Federal Energy Regulatory Commission	Docket EL11-66-000 Martha Coakley et. al. vs. Bangor Hydro-Electric Company, et. al on behalf of a group of New England Transmission Owners (2012-13)	Return on Equity; capital market view of transmission investment

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Jurisdiction	Proceeding	Topic
New York Public Service Commission	Cases 13-E-0030; 13-G-0031; and 13-S-0032 on behalf of Consolidated Edison Company of New York. (2013)	Cash flow and financial strength; regulatory mechanisms
Public Service Commission of Maryland	Case. 9214 “In The Matter Of Whether New Generating Facilities Are Needed To Meet Long-Term Demand For Standard Offer Service”, on behalf of Baltimore Gas and Electric Co., Potomac Electric Power Co., and Delmarva Power & Light (2012)	Effect of certain power contracts on the credit and financial strength of MD utility counterparties

CONSULTING & ADVISORY ASSIGNMENTS

Utility (Undisclosed) 2017	Credit advisory on ratings under a specific scenario. Objective: Compare strategic alternatives
Entergy Texas, Inc. 2016	Research study on debt equivalence and capital cost associated with capacity purchase obligations. Impact of new GAAP lease accounting standard on PPAs. Objective: Economic comparison of resource options.
Utility (Undisclosed) 2014	Evaluated debt equivalence of power purchase obligations. Objective: Clarify credit impact of various contract obligations.
Bank (Undisclosed) 2014	Research study and recommendations on Loss Given Default and historical experience of default and recovery in the regulated utility sector. Objective: Efficient capital allocation for loan portfolio.
GenOn Energy Inc. 2012	White Paper on appropriate industry peers for a competitive power generation and energy company. Objective: Improve peer comparisons in shareholder communications and for compensation studies.
Transmission Utility (Undisclosed) 2012	Recommended the appropriate capital structure and debt leverage during a period of high capital spending. Objective: Make efficient use of equity during multi-year capex project; preserve existing credit ratings.
Toll Highway (Undisclosed) 2011	Advised on adding debt while minimizing risk of downgrade. Recommended strategy for added leverage and rating agency communications. Objectives: Increase leverage and free up equity for alternate growth investments, while preserving credit ratings.
District Thermal Cooling Company (Undisclosed)	Recommended a project loan structure to deal with seasonal cash flow. Optimized payment schedule, form and timing of financial covenants. Objectives: Reduce default risk; efficient borrowing structure.

PROFESSIONAL AND EXECUTIVE TRAINING

In-house Training, Southern California Edison Co., Rosemead CA	Designed and delivered in-house training program on evaluating the credit of energy market counterparties, Nov. 2016
In-house Training, Undisclosed Financial Institution, NYC	Develop corporate credit case for internal credit training program and coordinate use in training exercise, 2016
CoBank, Denver CO	Designed and delivered “Midstream Gas and MLPs: Advanced Credit Training”, 2014
Empire District Electric Co., Joppa MO	Designed and delivered in-house executive training session Utility Sector Financial Evaluation, 2014
PPL Energy Corp, Allentown PA	Designed and delivered in-house Financial Training, 2014
SNL Knowledge Center Courses	“Credit Analysis for the Power & Gas Sector”, 2011-2014 “Analyst Training in the Power & Gas Sectors: Financial Statement Analysis”, 2013-2014
EEI Transmission and Wholesale Markets School	“Financing and Access to Capital”, 2012
National Rural Utilities Coop Finance Corp.	“Credit Analysis for the Power Sector”, 2012
Judicial Institute of Maryland (Private seminar for MD judges)	“Utility Regulation and the Courts: Impact of Court Decisions on Financial Markets and Credit”, Annapolis MD, 2007
Edison Electric Institute	“New Analyst Training Institute: Fixed Income Analysis and Credit Ratings”, 2008 and 2004

PUBLICATIONS**BOOK CHAPTERS**

“Managing Credit Risk in the Electricity Market”, Ellen Lapson and Denise Furey, chapter 21 in Managing Energy Price Risk, 4th Edition, Vincent Kaminski ed., Risk Publications, London, 2016.

“Standard Market Design: Credit of Some Sectors Will Be Affected by SMD”, Ellen Lapson. Chapter in: Electric & Natural Gas Business: Understanding It, 2003 and Beyond, Robert E. Willett ed., Financial Communications Company, Houston, TX, 2003.

Energy Modeling and the Management of Uncertainty, Robert Jameson ed., Risk Publications, London, 1999. “Managing Risks Through Contract Technology: Know Your Counterparty”, Ellen Lapson, pp 154-155.

“Managing Credit Risk in the Electricity Market”, Ellen Lapson (pp 281-291). Chapter in: The US Power Market: Restructuring and Risk Management, Robert Jameson ed., Risk Publications, London, 1997.

Deregulation of the Electric Utility Industry – Proceedings of the AIMR Seminar; ed. AIMR (CFA Institute), Charlottesville, VA, 1997. Speaker 3: E. Lapson.

EXHIBIT NO. ____ (EL-2)
Page 1 of 1Credit Rating Correspondences
Long-Term Ratings

Moody's Fitch and S&P

Investment Grade

Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-

Not Investment Grade

Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	B
B3	B-
Caa1	CCC+
Caa2	CCC
Caa3	CCC-

EXHIBIT NO. ____ (EL-3)

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11/28/2017

Moody's places SCANA and SCE&G on review for downgrade

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Rating Action: **Moody's places SCANA and SCE&G on review for downgrade**

Global Credit Research - 01 Nov 2017

Approximately \$8.5 billion of debt and credit facilities affected

New York, November 01, 2017 -- Moody's Investors Service (Moody's) placed the ratings of South Carolina Electric & Gas Company (SCE&G, Baa2) and its parent company SCANA Corporation (SCANA, Baa3) on review for downgrade. The review is prompted by the escalating political and regulatory contentiousness that has developed following the organization's decision to cease construction of the V.C. Summer new nuclear units 2 and 3. The review will primarily focus on the impact of ongoing proceedings before the Public Service Commission of South Carolina (SCPSC).

RATINGS RATIONALE

The intensity of the political and regulatory backlash following SCE&G's and SCANA's decision to abandon construction of the V.C. Summer units and to eventually seek recovery under the state's credit supportive Base Load Review Act (BLRA) has been much greater than our initial expectations. The review for downgrade recognizes the potential deterioration in credit quality that could occur if some of the more punitive positions that have been put forth by law makers, and the South Carolina Office of Regulatory Staff (ORS), were to be implemented.

We still believe it is possible to achieve a balanced regulatory outcome that could allow SCE&G to move forward and focus on ongoing utility operations, while providing some rate relief to customers, which would be supportive of the company's current credit quality and ratings. However, in the current politically charged environment, where some law makers appear to be looking for a means to ensure rate payers bear none of the costs of the abandoned nuclear construction, this scenario seems more difficult to attain.

The review will focus on the impact of ongoing proceedings before the SCPSC regarding the ORS request for rate relief. We will also monitor pending legislative proceedings which appear to be focused on enacting new laws or amendments that would essentially undo the credit supportive elements of the BLRA and return to a more traditional rate making framework which would result in less assured cost recovery.

In September, ORS requested that the SCPSC issue an order immediately suspending all rates SCE&G is collecting in conjunction with the V.C. Summer construction project under the BLRA; and if the BLRA is found to be unconstitutional or is amended or revoked, to require the utility to provide credits or make refunds to customers. In October, ORS amended its request to add that the SCPSC also consider the most prudent manner for SCE&G to enable its customers to realize the value of the monetized Toshiba Corporation guarantee payment. SCE&G has filed a motion to dismiss the ORS request. A procedural schedule has been established and a hearing date set for December 12, 2017.

From a credit perspective, when considering that SCE&G is no longer exposed to the construction, execution and concentration risks of building a large complex nuclear project, and given previous credit supportive regulatory decisions, the companies' ratings are currently relatively well positioned. However, the political and regulatory environment has become less predictable and some of these proposals, if adopted, could meaningfully weaken future financial performance.

Specifically, if the ORS recommendations were to be adopted, there would be a significant reduction in cash flow and a meaningful impact on credit metrics. For example, we estimate the companies' ratios of cash flow from operations excluding changes in working capital (CFO pre-WC) to debt, which are currently in the high-teens to twenty percent range, could move to the mid-to-low teens range. In addition, implementation of the ORS recommendation could lead to a substantial asset impairment, which in some downside scenarios, could result in a covenant violation under the companies' credit facilities, restricting their access to liquidity. In light of the increased regulatory and political uncertainty, the resulting metrics would likely no longer be appropriate for the companies' current ratings.

On Review for Downgrade:

..Issuer: SCANA Corporation

.... Issuer Rating, Placed on Review for Downgrade, currently Baa3

....Senior Unsecured Bank Credit Facility, Placed on Review for Downgrade, currently Baa3

....Senior Unsecured Commercial Paper, Placed on Review for Downgrade, currently P-3

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Baa3

..Issuer: South Carolina Electric & Gas Company

.... Commercial Paper, Placed on Review for Downgrade, currently P-2

.... Issuer Rating, Placed on Review for Downgrade, currently Baa2

....Senior Secured Shelf , Placed on Review for Downgrade, currently (P)A3

....Senior Secured First Mortgage Bonds, Placed on Review for Downgrade, currently A3

....Senior Unsecured Bank Credit Facility, Placed on Review for Downgrade, currently Baa2

..Issuer: South Carolina Fuel Company Inc.

.... Commercial Paper, Placed on Review for Downgrade, currently P-2

....Senior Unsecured Bank Credit Facility, Placed on Review for Downgrade, currently Baa2

Outlook Actions:

Related Issuers

[SCANA Corporation](#)[South Carolina Electric & Gas Company](#)[South Carolina Fuel Company Inc.](#)

Related Research





 [Credit Opinion: South Carolina Electric & Gas Company: Update following decision to abandon nuclear construction](#)
 [Credit Opinion: SCANA Corporation: Update following decision to abandon nuclear construction](#)
 [Credit Opinion: SCANA Corporation: Regulated utility holding company](#)
 [Issuer Comment: South Carolina Electric & Gas Company: Political and regulatory risks increase while Toshiba guarantee monetization eliminates one key uncertainty](#)
 [Issuer Comment: South Carolina Electric Utilities Terminate Nuclear Plant Construction, a Credit Positive](#)

EXHIBIT NO. ____ (EL-3)

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11/28/2017

Moody's places SCANA and SCE&G on review for downgrade

..Issuer: SCANA Corporation

....Outlook, Changed To Rating Under Review From Negative

..Issuer: South Carolina Electric & Gas Company

....Outlook, Changed To Rating Under Review From Negative

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The new V.C. Summer Units 2 and 3 are two Westinghouse AP1000 nuclear units (approximately 1,100 MWs each) that had been under construction at SCE&G's existing VC Summer plant site. SCE&G owns 55% of the new units, with the remaining 45% owned by Santee Cooper.

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Moody's places SCANA and SCE&G on review for downgrade

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Research Update:

SCANA Corp. And Subsidiaries Downgraded To 'BBB' On Adverse Regulatory Developments And Placed On Watch Negative

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Research Update:**SCANA Corp. And Subsidiaries Downgraded To 'BBB' On Adverse Regulatory Developments And Placed On Watch Negative****Overview**

- The current level of the customer rates of South Carolina Electric & Gas Co., SCANA Corp.'s largest operating subsidiary, are in jeopardy because of the company's abandonment of two nuclear units it was building.
- We are lowering our ratings one notch on SCANA and subsidiaries South Carolina Electric & Gas Co. (SCE&G) and Public Service Co. of North Carolina Inc. (PSNC), including the issuer credit ratings to 'BBB' from 'BBB+', due to adverse regulatory developments in South Carolina that have weakened the consolidated business risk profile.
- We are placing the ratings on CreditWatch with negative implications.
- We also revised our stand-alone credit profile (SACP) on SCE&G downward to 'bbb' from 'bbb+'.
- The negative CreditWatch listing indicates potentially lower ratings depending on the regulatory and legislative responses to the company's efforts to recover the abandoned investment.
- If rates are lowered by the South Carolina Public Service Commission (SCPSC), an additional one- or two-notch downgrade is possible in the near term.
- We could downgrade the ratings further if the SCPSC orders large rate refunds or credits, or if the South Carolina legislature retroactively changes the law that underpins our expectation of substantial recovery of the nuclear plant investment.

Rating Action

On Sept. 29, 2017, S&P Global Ratings lowered its ratings one notch on SCANA Corp. and subsidiaries South Carolina Electric & Gas Co. (SCE&G) and Public Service Co. of North Carolina Inc. (PSNC), including the issuer credit ratings (ICR) to 'BBB' from 'BBB+', and placed them on CreditWatch with negative implications.

We also revised our assessment of the consolidated business risk profile to strong from excellent. At the same time, we revised our stand-alone credit profile (SACP) on SCE&G downward to 'bbb' from 'bbb+' based on a revised business risk assessment.

*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB' On Adverse Regulatory Developments
And Placed On Watch Negative*

Rationale

The South Carolina Office of Regulatory Staff (ORS), an independent state agency that represents the public interest before the South Carolina Public Service Commission (SCPSC), the courts, and the legislature, has petitioned the commission to roll back rates authorized for SCE&G related to the construction of the now-abandoned Summer nuclear Units 3 and 4. If adopted by the SCPSC, which has already appointed a hearing officer and asked for an expedited schedule for the docket, the petition could result in a \$445 million rate decrease. A rate decrease of that magnitude would weaken credit metrics to a degree that would likely lead to a further ratings downgrade of up to two notches.

The ORS, the executive director of which is appointed by the legislature, is also asking the PSC to consider ordering refunds or rate credits for all previously collected Summer-related monies if the legislature repeals or amends the Base Load Review Act (BLRA) or if a court finds it to be unconstitutional. The BLRA is the state law that provided for the collection of the financing costs during Summer construction and other important provisions that reduced the regulatory risk of the project. The total of all rates collected for Summer to date is about \$1.76 billion.

The ORS cites a recent South Carolina Attorney General (AG) opinion that the BLRA is "constitutionally suspect" to support its filing. According to the ORS, the AG's opinion is likely to lead the legislature to change or revoke the law or that a court will be asked to rule on its constitutionality. The ORS is also pointing to allegations that SCE&G failed to disclose necessary information to the PSC that "would have appeared to provide a basis for challenging prior requests".

Any attempt to retroactively change the BLRA or a SCPSC refund or rate credit order could lead to further downgrades depending on the size and pace of the amounts forwarded to customers.

SCE&G and Santee Cooper have agreements with Westinghouse Electric Co. LLC's parent company, Toshiba Corp., under which Toshiba will pay the companies \$2.3 billion to satisfy all claims for damages associated with Westinghouse's rejection of the Summer engineering, procurement, and construction (EPC) contract. SCE&G's portion is about \$1.2 billion (55% of total). The company has monetized most of that amount through a third-party bank, which gives the company over \$1 billion of liquidity as it confronts the possibility of rate decreases and refunds or credits.

SCANA abandoned construction of the two new nuclear units amid the withdrawal from the project of its partner, the South Carolina Public Service Authority (Santee Cooper), and estimates of greater construction costs and delays. The poor public and political reaction to the decision by the partners has not reflected well on SCANA management's ability to manage and contain its regulatory risk, and we have revised our assessment of management and

*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB' On Adverse Regulatory Developments
And Placed On Watch Negative*

governance in our analysis accordingly. As permitted under the BLRA, the legal framework through which SCANA undertook construction of the new nuclear units, the company filed last month with the SCPSC to recover \$4.9 billion over 60 years at its cost of capital. The BLRA framework contemplates recovery of the abandoned investment with a return, without specifying the level of the return. In late 2016, the SCPSC deemed prudent capital costs for the project up to \$7.6 billion.

Liquidity

We assess SCANA's liquidity as adequate to cover its needs over the next 12 months. We expect the company's liquidity sources will exceed uses by 1.1x or more, the minimum threshold for a designation of adequate under our criteria, and that the company will also meet our other requirements for such a designation. SCANA's liquidity benefits from stable cash flow generation and availability under its revolving credit facilities.

Other support for our liquidity assessment includes the company's ability to absorb high-impact, low-probability events with limited need for refinancing; its flexibility to lower capital spending; sound bank relationships; solid standing in credit markets; and generally prudent risk management.

SCANA has a total of about \$2 billion under its revolving credit facilities, the bulk of which matures in 2020, and the \$1 billion of proceeds from the monetization of its Toshiba agreement, although the use of these proceeds is yet to be determined and is not factored into our assessment of liquidity below.

Principal liquidity sources:

- Cash funds from operations (FFO) of about \$1.5 billion; and
- \$2.0 billion in cash and available credit facilities.

Principal liquidity uses:

- Capital spending of up to \$1.4 billion;
- Dividends of \$365 million; and
- Debt maturities of about \$885 million including amounts outstanding under the commercial paper program.

CreditWatch

The CreditWatch with negative implications on SCANA and its subsidiaries reflects our view that the political atmosphere in South Carolina following the company's decision to abandon Summer construction has worsened and could result in regulatory and legislative decisions that harm both the business and financial risk of SCANA. We could lower the ratings on SCANA and its subsidiaries if Summer-related rates are rescinded. We could further lower ratings if legal challenges to a rate decrease are unsuccessful, if the SCPSC orders cash refunds or rate credits for Summer-related costs, if the BLRA is repealed or changed by the legislature, or if the BLRA is deemed unconstitutional.

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*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB' On Adverse Regulatory Developments
And Placed On Watch Negative*

Ratings Score Snapshot

Corporate Credit Rating: BBB/Watch Neg/A-2

Business risk: Strong

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

- Group credit profile: bbb

Issue Ratings

Capital structure

SCANA's capital structure consists of about \$2 billion of unsecured debt issued by SCANA and \$5.8 billion of debt issued by its subsidiaries.

Analytical conclusions

- The unsecured debt at SCANA is rated one notch below the issuer credit rating because it ranks behind a significant amount of debt issued by subsidiaries in the capital structure.
- Secured debt at SCE&G benefits from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral provides coverage of more than 1.5x, supporting a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.
- Unsecured debt at the utility subsidiaries is rated the same as the issuer credit rating in accordance with criteria.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In

EXHIBIT NO. ____ (EL-4)**Page 6 of 8**

*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB' On Adverse Regulatory Developments
And Placed On Watch Negative*

- Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
 - Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
 - Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
 - Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
 - Criteria - Corporates - Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
 - General Criteria: Methodology: Industry Risk, Nov. 19, 2013
 - General Criteria: Group Rating Methodology, Nov. 19, 2013
 - General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
 - Criteria - Corporates - Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
 - General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
 - General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
 - Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Downgraded; CreditWatch/Outlook Action;

	To	From
SCANA Corp.		
South Carolina Electric & Gas Co.		
Public Service Co. of North Carolina Inc.		
Corporate Credit Rating	BBB/Watch Neg/A-2	BBB+/Developing/A-2

Ratings Affirmed; CreditWatch Action

	To	From
South Carolina Fuel Co.		
Corporate Credit Rating	--/Watch Neg/A-2	A-2
Commercial Paper	A-2/Watch Neg	A-2
SCANA Corp.		
Commercial Paper	A-2/Watch Neg	A-2
Public Service Co. of North Carolina Inc.		
Commercial Paper	A-2/Watch Neg	A-2
South Carolina Electric & Gas Co.		
Commercial Paper	A-2/Watch Neg	A-2

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*Research Update: SCANA Corp. And Subsidiaries Downgraded To 'BBB' On Adverse Regulatory Developments
And Placed On Watch Negative*

Downgraded; CreditWatch Action

	To	From
SCANA Corp.		
Senior Unsecured	BBB-/Watch Neg	BBB
Junior Subordinated	BB+/Watch Neg	BBB-

Public Service Co. of North Carolina Inc.

Senior Unsecured	BBB/Watch Neg	BBB+
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Downgraded; CreditWatch Action; Recovery Unchanged

	To	From
South Carolina Electric & Gas Co.		
Senior Secured	A-/Watch Neg	A
Recovery Rating	1+	1+
Preferred Stock	BB+/Watch Neg	BBB-

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9/29/2017

[Press Release] Fitch Downgrades SCANA to 'BB+' / SCE&G to 'BBB-'; Negative Watch Maintained



Fitch Downgrades SCANA to 'BB+' / SCE&G to 'BBB-'; Negative Watch Maintained

Fitch Ratings-New York-29 September 2017: Fitch Ratings has downgraded the Long-Term Issuer Default Ratings (IDRs) of South Carolina Electric and Gas Co (SCE&G) and its parent SCANA Corp. (SCANA) by one notch to 'BBB-' and 'BB+', respectively. Fitch also downgraded the ratings of Public Service Company of North Carolina (PSNC) by one notch, to 'BBB-', given the rating linkage with its parent, SCANA. Concurrently, the Short-Term IDRs of SCE&G, PSNC and South Carolina Fuel Company were downgraded to 'F3' from 'F2' while the Short-Term IDR of SCANA was downgraded to 'B' from 'F3'. The downgrade reflects the intense legislative and regulatory scrutiny of the abandoned units 2 and 3 of the V.C. Summer nuclear plant and recent comments by the South Carolina Attorney General that question the constitutionality of the Baseload Review Act (BLRA). A full list of ratings actions is listed at the end of this release.

Fitch is concerned with the sharp deterioration in the legislative and regulatory environment in South Carolina. There is a significant risk that SCE&G may have to cease collection of revenues related to the new nuclear units, as petitioned by the Office of the Regulatory Staff (ORS) to the SC Public Service Commission (PSC) until the legal issues regarding the BLRA are resolved. Fitch could consider additional negative rating actions if the BLRA were to be found unconstitutional and material refunds required. The Rating Watch Negative primarily reflects the risk that adverse regulatory orders could lead to restricted liquidity, constrained capital access and incremental debt issuance that alters the structural priority of debt levels. Fitch expects to resolve the Rating Watch once better visibility is obtained regarding the PSC order on the ORS petition as well as the liquidity and financing strategy at both SCANA and SCE&G.

KEY RATING DRIVERS

Deterioration of the Regulatory and Legislative Environment: The rating downgrade primarily reflects the severe deterioration in the legislative and regulatory construct in SC in recent days. The filing by the ORS seeking immediate suspension of revenues related to the new nuclear units as approved under the BLRA and possible refund of all revenues collected to date exemplifies the challenging environment. The House and Senate-led committees are critically reviewing the path of the failed project. In addition, criminal investigation into SCANA's management of the project and SC Attorney General's adverse evaluation of the constitutionality of the BLRA renders negotiation of a settlement for the recovery of the stranded costs impossible, in Fitch's view. Legal battles are expected to establish constitutionality of the BLRA, which will lead to a protracted period of uncertainty.

Potential Suspension of BLRA-Related Revenues: The BLRA-related revenues have been crucial to SCE&G maintaining credit metrics consistent with an investment-grade rating during the nuclear construction period. They represent roughly one third of SCE&G's estimated EBITDA for 2017 and the primary source of funds to start repayment of the construction-related debt incurred in recent years. Suspension of \$445 million of BLRA-related revenues would lead to approximately 200bps deterioration in adjusted debt / EBITDAR metrics, which were at 4.5x as of June 30, 2017. While not part of Fitch's base case scenario, any permanent loss of BLRA-related revenues and associated write-offs would materially impair SCE&G's financial health, leading to multi-notch rating downgrades for SCE&G and SCANA depending on the repayment mechanisms and financing options available to them. In absolutely the worst-case scenario, if SCE&G is asked to refund to customers the \$1.8 billion collected to date under the BLRA and all stranded assets are disallowed, the financial viability of the companies could be threatened.

Tax Offsets and Toshiba Guarantee: Tax deductions and the guarantee payments by Toshiba Corp are the most significant source of financial relief available to SCE&G and ratepayers. Management estimates that tax deductions for stranded costs and research and development at about \$2 billion while payments due under the Toshiba guarantee were set at \$1.192 billion. Recent announcement of the monetization of the settlement payments from Toshiba alleviates the collection risks stemming from its weak financial condition and the extended payment terms. Allocation of \$1.1 billion of proceeds to reduce short-term borrowings can improve SCE&G's liquidity position and reduce financial leverage by about 0.5x.

Financial Policy and Capital Structure: Management's financial policy, including targeted leverage and allocation of capital, will also be key rating drivers going forward. The parameters set for SCE&G's and SCANA's IDRs incorporated significant latitude for leverage metrics to exceed levels commensurate with the ratings during the peak construction period. The loss of BLRA-related revenues would significantly curtail SCE&G's and SCANA's ability to generate FCF over the medium term. A more adverse outcome, including the permanent loss of any future BLRA-related revenues and write-off of all stranded assets, could permanently impair the balance sheet and FCF generation, constrain access to capital markets and materially impact the credit profile.

DERIVATION SUMMARY

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[Press Release] Fitch Downgrades SCANA to 'BB+' / SCE&G to 'BBB-'; Negative Watch Maintained

SCE&G is a vertically integrated regulated utility company operating exclusively in South Carolina. SCE&G's credit profile is constrained by the heightened regulatory and legislative risk related to the abandonment of its nuclear expansion project. SCE&G has a smaller scale and balance sheet than Georgia Power Company (A/Negative Watch), who undertook similar new nuclear construction risk. SCE&G and Dayton Power & Light Company (DP&L) (BB+/Negative) both operate regulated assets with evolving regulatory constructs. SCE&G's IDR is one notch above that of DP&L, despite slightly weaker credit metrics, as DP&L's ratings are constrained by those of its parent DPL, Inc (B+/Negative).

SCANA is weakly positioned compared to IPALCO Enterprises, Inc.'s (BB+/Stable), given the more constructive and predictable regulatory environment of IPALCO's subsidiary, Indiana Power and Light Company (BBB-/Stable). IPALCO's greater earnings and cash flow visibility more than offset its higher proportion of parent-level debt. SCANA has a favorable business profile as compared to DPL, Inc (B+/Negative) given its predominant regulated operations. DPL is currently in the process of transitioning DP&L's generation assets to a non-regulated subsidiary and is exposed to commodity risk on those generation assets. However, Ohio's regulatory construct, while still in transition, is more constructive than what is playing out in South Carolina. In addition, Ohio regulators continue to demonstrate a willingness to take actions to protect the financial integrity of its utilities.

Fitch focuses on operational ties between SCANA, SCE&G and PSNC in assessing the rating linkage between them, in accordance with its criteria for subsidiaries with stronger credit profiles than their parents. Fitch assesses the operational ties as strong given the shared management and centralized treasury operations. In addition, SCE&G generates the majority of SCANA's earnings while PSNC relies on equity infusions from SCANA to implement its expansion program. As a result, Fitch currently rates SCE&G and PSNC one-notch above SCANA.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:

- Abandonment of V.C. Summer units 2 and 3 with net stranded costs of about \$2.2 billion. No write-down of regulatory assets over the forecast period;
- Cessation of collection of all BLRA-related revenues until the legal challenges to the BLRA are resolved (through 2019 on a conservative basis);
- Monetization of Toshiba guaranty settlement payments for \$1.016 billion in Sept. 2017 and receipt of \$82.5 million in Oct. 2017;
- A wide range of regulatory outcomes to the petition to abandon the nuclear project were considered, including significant write-downs of stranded assets and rebate of the Toshiba guaranty settlement to ratepayers in 2018-2019;
- No base rate case filings and no material change to the 10.25% base authorized ROE.

RATING SENSITIVITIES**RATING SENSITIVITIES FOR SCANA**

Positive Rating Action: The ratings could be stabilized if rate recovery mechanism authorized by the PSC for the stranded V.C. Summer expansion project and management's financial policy result in SCANA's adjusted debt/EBITDAR stabilizing at or below 5.5x. Positive rating actions could be considered if risks related to the new nuclear construction project are resolved and adjusted debt/EBITDAR can be maintained at or below 4.5x.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include:

- Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12-18 months;
- Unfavorable terms for the recovery of stranded costs and/or material unrecoverable costs;
- Adjusted debt/EBITDAR consistently and materially exceeding 5.5x;
- Shareholder-friendly initiatives, especially when combined with adverse regulatory outcome to the abandonment filing;
- Ring-fencing provisions that restrict cash inflows from SCE&G to SCANA.

RATING SENSITIVITIES FOR SCE&G

Positive Rating Action: The ratings could be affirmed if rate recovery mechanism authorized by the PSC for the stranded V.C. Summer expansion project and management's financial policy result in SCE&G's adjusted debt/EBITDAR stabilizing at or below 5.0x. Positive rating actions could be considered if risks related to the new nuclear construction project are resolved and adjusted debt/EBITDAR can be maintained at or below 4.0x. Fitch could widen the rating differential between the IDRs of SCE&G and SCANA if strong ring-fencing provisions were enacted.

Negative Rating Action: Future developments that may, individually or collectively, lead to a negative rating action include:

- Availability under committed liquidity facilities and anticipated internally generated cash flows falling short of expected obligations due in the next 12-18 months.
- Unfavorable terms for the recovery of stranded costs, and/or material unrecoverable costs;

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- Continued deterioration in the regulatory and legislative environment in South Carolina;
- Adjusted debt/EBITDAR consistently and materially exceeding 5.0x.

RATING SENSITIVITIES FOR PSNC

Positive Rating Action: PSNC's ratings could be affirmed if SCANA's IDR is stabilized at 'BB+'. Positive rating action is predicated upon a rating upgrade of SCANA given PSNC's rating linkage with its parent. Fitch could widen the rating differential between the IDRs of PSNC and SCANA if strong ring-fencing provisions were enacted.

Negative Rating Action: Given the strength of the credit metrics for the current ratings, a downgrade of parent SCANA below the current 'BB+' represents the greatest likelihood of a PSNC downgrade. While less likely given the headroom, a downgrade could also occur if adjusted debt/EBITDAR exceeds 5.5x on a sustained basis.

LIQUIDITY

SCANA has adequate financial flexibility, under Fitch's base case scenario, to meet its obligations over the next 12 months without accessing the capital markets. As of June 30, 2017, SCANA had about \$350 million available under its \$400 million five-year credit agreement (expiry in December 2020) while SCE&G had \$320 million available under credit agreements totalling \$1.4 billion (mostly expiring in December 2020) and PSNC has full availability under its \$200 million line of credit. Consolidated cash balances were minimal, a frequent occurrence in the electric utility sector.

Availability under SCANA's and SCE&G's credit facilities at June 30, 2017, is roughly equal to its debt maturities through 2018. Fitch estimates that SCANA incurred a very modest cash burn since the second quarter and anticipates that SCANA will be roughly FCF neutral in the next 12 to 18 months, including the loss of BLRA-related revenues but excluding any Toshiba-related rebates. Curtailment of dividend payments could provide up to \$300 million of incremental liquidity, if needed. Monetization of the Toshiba guarantee payments, and the scheduled payment on Oct. 1, 2017, will bolster liquidity by \$1.1 billion provided that mandated customer rebates related to this offset, if any, are spread over a long period of time. As a conservative assumption, Fitch's base case scenario assumes that Toshiba-related payments are initially allocated to reduce short-term borrowings but customer rebates to ratepayers are mandated by the PSC over 2018-2019.

Materially adverse scenarios such as permanent suspension of BLRA revenues or, in an extreme scenario, requirement for SCE&G to refund to customers the \$1.8 billion collected to date under the BLRA, could create significant liquidity concerns and constrain access to capital. The credit agreements require each entity (SCANA, SCE&G and PSNC) to maintain a debt ratio of no more than 70%. Fitch estimates that SCANA had a 57% debt ratio and SCE&G had a 53% debt ratio at June 30, 2017.

FULL LIST OF RATING ACTIONS

Fitch has downgraded the following ratings and maintained them on Rating Watch Negative.

SCANA Corporation

- Long-term IDR to 'BB+' from 'BBB-';
- Senior Unsecured debt to 'BB+' from 'BBB-';
- Short-term IDR to 'B' from 'F3'.
- Commercial Paper to 'B' from 'F3'.

South Carolina Electric & Gas Co.

- Long-term IDR to 'BBB-' from 'BBB';
- First Mortgage bonds to 'BBB+' from 'A-';
- Senior Unsecured debt to 'BBB' from 'BBB+';
- Short-term IDR to 'F3' from 'F2';
- Commercial paper to 'F3' from 'F2'.

Public Service Company of North Carolina, Inc.

- Long-term IDR to 'BBB-' from 'BBB';
- Senior Unsecured debt to 'BBB' from 'BBB+';
- Short-term IDR to 'F3' from 'F2';
- Commercial paper to 'F3' from 'F2'.

South Carolina Fuel Company

- Commercial paper to 'F3' from 'F2'.

Fitch is also assigning a senior unsecured rating to several existing senior unsecured notes at PSNC that were not included in the

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Summary of Financial Statement Adjustments - No financial statement adjustments were made that were material to the rating rationale outlined above.

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Additional information is available at www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria

Corporate Rating Criteria (pub. 07 Aug 2017) (<https://www.fitchratings.com/site/re/901296>)

Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016) (<https://www.fitchratings.com/site/re/886557>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/1029988>)

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Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
South Carolina Fuel Company USCP 4(2)/ 144A D	-	Short Term Rating	Unsolicited

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Pro Forma Effect of Asset Impairment on Capital Structure

A. SCE&G Regulatory Earnings Report to the Commission, Sept 30, 2017

	30-Sep-17	Adjustments (a)	Adjusted, with Toshiba Guarantee	Adjustments(b)	Adjusted, without Toshiba Guarantee
Long-Term Debt	4,928,770,000		4,928,770,000		4,928,770,000
Current Maturities LTD					
Short-term Notes					
Total Debt	4,928,770,000	0	4,928,770,000	0	4,928,770,000
Common Equity	5,377,832,362	(2,300,000,000)	3,077,832,362	(3,000,000,000)	2,377,832,362
Preferred Equity	<u>100,000</u>	<u>0</u>	<u>100,000</u>	<u>0</u>	<u>100,000</u>
Total Capitalization	10,306,702,362	(2,300,000,000)	8,006,702,362	(3,000,000,000)	7,306,702,362
Debt to Capital %	47.82%		61.56%		67.46%

B. SCE&G Report to the SEC on Form 10-Q, Sept 30, 2017

	30-Sep-17	Adjustments (a)	Adjusted, with Toshiba Guarantee	Adjustments(b)	Adjusted, without Toshiba Guarantee
Long-Term Debt	4,990,000,000		4,990,000,000		4,990,000,000
Current Maturities LTD	173,000,000		173,000,000		173,000,000
Short-term Notes	<u>945,000,000</u>	<u>(945,000,000)</u>	<u>0</u>		<u>945,000,000</u>
Total Debt	6,108,000,000	(945,000,000)	5,163,000,000		6,108,000,000
Common Equity	5,377,832,362	(2,300,000,000)	3,077,832,362	(3,000,000,000)	2,377,832,362
Preferred Equity	<u>100,000</u>	<u>0</u>	<u>100,000</u>	<u>0</u>	<u>100,000</u>
Total Capitalization	11,485,932,362	(3,245,000,000)	8,240,932,362	(3,000,000,000)	8,485,932,362
Debt to Capital %	53.18%		62.65%		71.98%

Notes:

a. Common Equity: Loss associated with \$4.8 billion asset write-off net of \$1.8 billion in taxes and after-tax recovery of \$0.7 billion from Toshiba Guarantee proceeds. Short-term debt: Reduced by application of part of gross proceeds of Toshiba Guarantee.

b. Common Equity: Loss associated with \$4.8 billion asset write-off net of \$1.8 billion in taxes.